Thrift and Labor

By Alvin H. Hansen, Ph.D.

Associate Professor of Economics, University of Minnesota

THE central problem of the present discussion may be stated as follows: Is a nation with a high standard of living, or in other words a nation that spends freely, more or less prosperous than a nation which restricts consumption, lives simply and saves thriftily?

Banking Theory vs. Business Theory

This question at once raises an antagonism between bankers on the one hand and business men on the other. Bankers are always busily engaged preaching the homely virtue of thrift. To them the volume of savings accounts is the prime index of the prosperity of a community. Business men on the other hand are constantly engaged in a huge propaganda to make spenders of us all. It is probable that not far from a billion dollars are spent annually in the United States for advertising. The business man does not want us to save; he wants us to spend. He measures prosperity not by the average family savings but by the average family scale of expenditure.

The Thrift School vs. the Spending School

The labor movement is a record of a similar antagonism. The Schulze-Delitzsch and Raiffeisen Credit Societies, the Rochdale Consumers' Coöperative Societies, now constituting nearly one quarter of the consumers of England, Russia, Belgium, Germany, Austria and Denmark,[1] find the solution of the labor problem essentially in saving. Through saving and the petty accumulation of property on the part of large masses of people not only does the individual prepare the way for an enlarged future income and provision for old age, but the working class as a whole prepares the way for the coöperative ownership of the whole means of production, and the complete elimination of the profit system. This working class movement thus moves forward in the firm belief that it is gradually staking out for itself the coöperative commonwealth through the program of collective saving. The social revolution will be accomplished not through violence and class struggle but through the homely virtue of persistent and constant saving. This may be called the thrift school of social reform.

On the other hand is the spending school. Beginning with Sismondi, and running through the writings of Rodbertus, Ira Steward and John A. Hobson (to mention only one representative from each of the four great modern nations) we have a group of thinkers who contend that labor must find the solution of its problems not in saving but in spending. The underpaid working man barely living from hand to mouth will not find the way out of his difficulty in a thrift policy which compels him to tighten his own belt, to send his children off to school ill-nourished and unfit for study, and finally to set them to work in the factory at the earliest possible age handicapped in their equipment for life. Rather he

[1] See Monthly Labor Review, March, 1919.

will find the solution in the struggle for a larger share of the product, shorter hours, more leisure, a higher standard of living, better education, better housing, better food, better clothes, more comforts and luxuries. Ira Steward, constant exponent of this theory, even looked forward to the ultimate elimination of both interest and profits through the gradual acquisition on the part of labor of a larger and larger share of the product of industry. Shorter hours, more leisure, higher standards of living, the demand for a larger life and the constant struggle to attain it would ultimately make everyone at once both worker and capitalist. The coöperative commonwealth would be reached not through saving but through spending.

HARMONY OF INTEREST THEORY

But the argument for spending does not always or necessarily extend to the extreme of the ultimate elimination of interest, profits and the capitalist system. George Gunton, disciple and literary heir of Ira Steward, sought to establish the principle that capital itself would be benefited by the enlarged spending of the masses. If the masses live high and spend freely, the great demand for consumption goods gives rise to remunerative employment for capital goods. Hence business is prosperous, profits are good, large surpluses are retained in businesses in order to expand the equipment, and wealthy people are induced to enlarge their fortunes through saving because of the profitable rate obtaining in the employment of capital. Thus a harmony of interest theory is developed. Spending on the part of the general masses becomes an advantage for those who are in a position to save large fortunes. On the other hand saving on the part of the wealthy becomes a benefit to the spending multitudes in that it supplies them with the equipment requisite for wide-spread employment, and the satisfaction of their high standard wants. A division of labor is thus effected which is mutually advantageous.

If the masses did not spend there would be no profitable employment for capital, and if the wealthy did not save there would be no equipment[2] with which to obtain employment, incomes and want-satisfying things. Thus the thriftlessness of the masses makes possible the accumulation of huge fortunes. Says Professor H. G. Moulton: "If everybody attempts to make adequate provision for old age through saving and investment there is certain to follow in good time a curtailment of production that results in unemployment and part-time work, and this not only prevents the masses from making adequate provision for the future, but leads to reduced consumption and often to real privation."[3] Speaking of the extravagance of Americans, their high standard of living, and the rapid expansion of American industry he says further: "Perhaps most significant of all, it has intensified the concentration of ownership and the development of an aristocracy of wealth. The enormous expansion of capitalistic industry was profitable only so long as consumption continued high. The thriftlessness of the masses of American people gave the impetus to an ever expanding capitalistic production . . . while more thrift on the part of the masses would have re-

[2] It should be noted that Professor Moulton finds another source of capital equipment in the expansion of bank credit. See J. of Pol. Econ. for May, June, July and November, 1918.

[3] J. of Pol. Econ., Nov., 1918, p. 880.

tarded the rate of capital formation as compared with the rate we have had under the impetus of high consumption. . . . This large consumption on the part of the masses has made it profitable for corporate industry continually to expand through the process of putting funds directly back into the business; it has thus given us vast fortunes for the relatively few and little if any provision for old age for the many."[4]

THE RELATION OF SAVING AND SPENDING TO THE CYCLE OF PROSPERITY AND DEPRESSION

But this alleged harmony of interest does not run a uniformly smooth course. Modern business is always being disturbed by the wave-like cycles of prosperity and depression. Why does not this mutually satisfactory spending and saving work out in continuous prosperity? The reason, we are told by John A. Hobson, is that the rich save too much and the masses spend too little. The fundamental cause of depression may be found in the existence of surplus incomes. Wealthy people desire to increase their fortunes. They do so by saving instead of spending. These fresh savings are rapidly translated into additional capital equipment. This extension of capital equipment soon results in an enlarged output of consumers' goods. The masses of people with their limited incomes are unable to purchase this enlarged outpouring of consumers' goods. The recipients of surplus incomes have ample purchasing power to take off this surplus of production but they are unwilling to spend enough of their incomes to prevent the over-production of consumers' goods. No matter how much production is directed toward the things that would appeal to the rich, even their ostentatious wants are so amply provided for that they always will desire, in periods of prosperity, to invest and save too large a proportion of their incomes.

Since they are themselves unwilling to spend the proper proportion of their incomes on consumers' goods the new investment must necessarily produce goods intended for the masses. Because of the limited incomes of the masses and their inability to purchase this new outpouring of goods the inevitable result is a congested market, depression, lower prices, smaller profits and smaller incomes for the rich. Since the wealthy class would be unwilling to have their established scale of expenditure reduced they will continue to maintain the same standard, despite the reduction of incomes. The result is that less is saved and invested in capital equipment. Thus consumption is given a chance to catch up with the capacity of the industrial equipment, surplus goods are worked off and prices again rise.

With the return of higher prices, profits are increased, incomes are greater, a larger and larger proportion of the surplus incomes are invested in capital equipment, and production again outruns consumption.

Surplus incomes, therefore, produce excessive saving and result in an incessant attempt to employ capital in excess of the demand of the ultimate consumer. Thus Hobson explains the ever recurring cycle of depression. Surplus incomes must be reduced by taxation, spending must be increased by raising wages, shortening the work day, and increasing the general standard of expenditure.

Such a solution of the problem of depression appears to the writer to be

[4] J. of Pol. Econ., Nov., 1918, p. 874.

not only chimerical, but to be based on a completely erroneous analysis of the cycle of prosperity and depression. The writer hopes to publish elsewhere a detailed study of business cycles based on monthly data for Great Britain, Germany and the United States. While it is impossible to go into detailed arguments in this paper it is his conclusion that neither under-consumption or over-production produce the economic cycle. In brief the solution of the problem of the business cycle must be found in the movements of money, credit, prices and profits. Leading exponents of this view, it will be at once recognized, are Fisher, Veblen and Mitchell, there being, however, wide differences in their theories particularly as to the number of factors involved.

The various financial and industrial indices relating to the business cycle fall into three groups in point of synchronous movement. The first may be called the *Banking Group*, including such indices as bank reserves, bank deposits, bank loans and discount rates. The second may be called the *Investment Group*, which includes stock prices, shares traded on the stock exchange, liabilities of business failures and bank clearings. The third may be called the *Industrial Group*. This group includes wholesale prices, production of pig iron, railroad gross earnings, imports, unemployment and immigration. The series in each group are almost completely synchronous. The Banking Group precedes the Investment Group in point of time by two or three months, while the Investment Group precedes the Industrial Group by from six to twelve months. Substantially similar results were found for Great Britain, Germany and the United States, the movements being practically synchronous in all three countries.

The casual relation runs through the sequence of bank reserves, discount rates, bank credit, issue of securities, purchasing power of business industries, prices, production and profits. The movement of the Banking Group presently affects the Investment Group, and the combined influence of these two work out in due time their influence on industry, prices, production and profits. The inevitable inability of the banking credit, of all the advanced nations combined, to expand indefinitely puts a halt to the period of prosperity. Ensuing depression releases the strain on banking credit, and the freshly accumulated reserves soon give rise to another period of expansion and prosperity.

The evidence for the support of the above more or less dogmatic statements cannot here be presented, but it is believed that there is ample justification for the statement that under-spending and over-saving are not among the forces that produce the cycle of prosperity and depression. Enlarged spending is not the solution for this modern evil which so vitally affects labor.

HIGH CONSUMPTION AND THRIFT RECONCILED

But the position taken by Professor Moulton in his recent articles on Commercial Banking and Capital Formation in support of high consumption has nothing inherently to do with the fluctuating business cycle. May it not be that a nation, which spends freely and indulges in high consumption, will have always, both in prosperity and depression, more employment, larger production, higher well-being and a greater supply of capital equip-

ment than a nation closely parsimonious and thrifty? This is an entirely different matter. We are again faced squarely with the question as to which policy will bring the greatest wealth and well-being to a nation, the policy of universal thrift or the policy of high consumption and free spending.

With regard to this question the writer is in agreement with Professor Moulton. Entirely apart from the surface waves of the business cycle, universal high consumption makes for a deeper, more permanent body of prosperity, larger production, more capital equipment and greater wealth and well-being.

But it must be noted that high consumption does not mean wasteful consumption. Thrift and a high scale of living are by no means antithetical. Thrift and saving do not necessarily result in capital formation, or in an addition to the industrial equipment. Thrift and saving may just as likely result in an enlarged stock of durable enjoyment goods. Herein lies in part the reconciliation between spending and saving. A thrifty workman by means of a niggardly scale of living is accumulating a good sized savings account. The bank invests his savings in railroad securities from the proceeds of which the railroad enlarges its equipment. Another equally thrifty workman, but with a more generous scale of living is making gradual payments on his house until he becomes the full-fledged owner of a comfortable home. Thrift in the first case results in capital formation. In the latter case it results in an addition to the stock of durable enjoyment goods. One type of thrift involves a low scale of living, while the other implies a high standard of living. In the one case thrift adds to the supply of industrial equipment; in the other it increases the demand. Effective demand is fundamental as a basis for national prosperity.

France is an excellent example of a universally thrifty nation. But she has not been a model of prosperity. Would not the French nation have been more prosperous if her people had invested less of their income in the securities of Russian and Balkan railroad, mining and industrial concerns, and had spent more of their income on a higher standard of efficiency, better homes, education, comforts, etc.? The result would have been a tremendous boom for her industries, more employment for her working class, and a richer life for her now too niggardly peasants.

A Thrift Program and an American Standard of Living

A universal national thrift policy which results in large overseas investments and financial imperialism is not the sort of thrift which will be of benefit to labor. Neither is a thrift program desirable which results in an un-American standard of consumption. We would not be pleased if American labor generally should adopt that sort of thrift practiced by certain low standard immigrants who live on a miserable scale while accumulating a small fortune to carry back to their own country. Such a thrift policy not only makes life miserable for the individual family and lowers the nation's standard of living, but at the same time brings stagnation to industry and forces the investment of surplus savings abroad.

But there is a national thrift policy which would be of benefit to labor. It must not be a thrift policy which leads to financial imperialism, industrial

stagnation and niggardly consumption standards. It must be a thrift program which results in generous but judicious expenditure, high standards of living, large production and general industrial prosperity.

The coöperative movement is a thrift producing movement. But it should be noted that it does not inculcate the kind of thrift which results in low standards of living and reduced consumption. A Scottish coöperator using the dividends received on his wife's purchases at the coöperative store to meet payments on his house laughingly complains that his wife does not spend enough, for the more she spends the sooner will the house be paid for! The coöperative movement as a thrift movement does not merely result in the accumulation of considerable capital in the form of retail stores, wholesale houses, manufacturing plants, stocks of goods, etc., but it uses its credit and its profits as a means whereby consumers with small incomes may come to possess durable enjoyment goods and thus raise their standard of living.

The coöperative movement reconciles saving and thrift with high consumption in another fashion. On the continent of Europe, particularly in Belgium, it has been made a device for coöperative saving by means of which provision is made for sickness, unemployment, invalidity and old age. Here again is an agency for thrift which does not unduly depress consumption during the saving period, and which protects the standard of consumption throughout the vicissitudes of life. Individual saving on a scale sufficiently large to protect the family against the contingencies named is not only exceedingly wasteful, but requires of necessity a niggardly and narrow scale of consumption and a low standard of life. Such thrift and saving not only doom the individual family to fearful sacrifices, but if carried on universally would deprive the nation of that general industrial prosperity that goes with high consumption.

But a national program of thrift which is not to sacrifice high consumption cannot rely on or wait for a voluntary coöperative movement, especially in America where it has made such meager headway. There should be a national program of thrift which does for its citizens what the coöperative movement does for its membership. Social insurance in all its aspects—accident, sickness, invalidity, old age and unemployment—is clearly a part of an economical, worth-while thrift program. Above all a thrift program should in some way seek to increase home ownership. The Federal Farm Loan Act makes provision for the utilization of the coöperative credit of the nation for the laudable purpose of helping farmers to become land owners. Why should not the nation's credit be mobilized in some similar fashion for the purpose of assisting our citizens to become home owners. President Emeritus Eliot of Harvard University contends that two of the reforms most urgently needed in America lie in the fields of housing and public health. A national home loan measure would stimulate state activity along the same line, as has been true in the case of the Federal Farm Loan Act. A national housing program would stimulate thrift, that kind of thrift which does not lower consumption, which raises the standard of living, and which makes for employment, productive activity and industrial prosperity.